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RUEHRO/AMEMBASSY ROME IMMEDIATE 1023
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RHEBAAA/DEPT OF ENERGY WASHINGTON DC IMMEDIATE
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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 004526

SIPDIS

STATE FOR EAP/CM, NEA/IR, EEB/ESC, INR/EAP, INR/NEA

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TAGS: [PREL](#) [PARM](#) [ENRG](#) [PTER](#) [ECON](#) [EPET](#) [EINV](#) [MNUC](#) [POL](#)

IR, CH

SUBJECT: PRC/IRAN: DAS HENGEL DISCUSSES CHINA-IRAN ENERGY
DEALS WITH MFA, SINOPEC, AND PETROCHINA

REF: A. REF A: 07 BEIJING 7445

[1](#)B. REF B: BEIJING 1073

[1](#)C. REF C: BEIJING 1432

[1](#)D. REF D: BEIJING 4097

Classified By: Classified by: Economic Minister Counselor Robert Luke f
or Reasons 1.4
(b/d).

Summary

[1](#)1. (C) EEB DAS for Energy, Sanctions, and Commodities
Douglas Hengel,
met with MFA Arms Control and Disarmament Department Deputy
DirecQ
General Wu Haitao and Sinopec International Affairs Director
General
Tang Suxin on December 5 to discuss Chinese energy companies'
activities
in Iran. DDG Wu repeated China's opposition to the
development of
nuclear weapons in the Middle East, said China is increasing
pressure on
Iran, and reiterated China's strong opposition to potential
U.S.
sanctioning of PRC firms, including Sinopec, under the Iran
Sanctions
Act (ISA). Sinopec DG Tang reiterated previous assertions
that
Sinopec's Yadavaran project has stalled, due in part to
Iran's
displeasure with China's support for UNSCR 1803. He stressed
that
Sinopec is a responsible company that acts in accordance with
UN
resolutions on Iran and supports the Chinese government's
opposition to
Iran's pursuit of nuclear weapons while asking that the U.S.
take a more
rational approach to Iran. In a December 3 meeting,
PetroChina
President Zhou Jiping told Hengel that PetroChina is also
considering a
project in Iran, but it has not yet made any specific plans.
End Summary.

China "forcefully" implementing UNSCR measures

12. (C) DAS Hengel told MFA Arms Control and Disarmament Department Deputy Director-General Wu Haitao December 5 that the international community must increase pressure on Iran to deal with developments in the nuclear program, including cutting off cooperation in the energy sector. DDG Wu repeated the Chinese position opposing the development of nuclear weapons in the Middle East and urging the resolution of the nuclear issue through "diplomatic ways." He underscored the importance of continuing U.S.-China coordination on the issue. Wu said that the P5-plus-1 has a good opportunity to make progress on the Iranian nuclear issue, claiming that the P5-plus-1 has reached consensus on the principle of "freeze-for-freeze" and the dual-track strategy.

13. (C) DDG Wu said that China has "forcefully" implemented measures called for by the relevant UNSCRs, and the Iranians have complained to the Chinese about such measures. Wu claimed that China is "increasing pressure on the energy side." He noted that the P5-plus-1

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incentive package is still on the table, and expressed hope that the process can enter a "new phase" and begin "serious" negotiations on incentives for Iran, once a "freeze-for-freeze" has been implemented.

Arms sales to Iran "not detrimental" to other countries

14. (C) Turning to China-Iran arms sales, DDG Wu said that China takes a "prudent" approach to avoid violating UNSCRs, and that such sales are "not detrimental" to the interests of "other countries." He stressed that China understands the U.S. sensitivity on the issue, but that such cooperation is "normal" and China will "continue to take a responsible attitude" on arms deals.

China strongly opposes application of ISA to Sinopec

15. (C) On the potential application of the Iran Sanctions Act on Chinese firms, Wu reiterated China's strong opposition to the United States sanctioning PRC firms under domestic U.S. law, especially given good U.S.-China cooperation on the Iranian nuclear issue. Wu asked rhetorically if the United States sees China as a partner or "otherwise," and claimed that China-Iran economic cooperation "conforms with international practices."

Sinopec's Yadavaran Project Reported to be On Ice

16. (C) DAS Hengel met separately the same afternoon with Sinopec International Affairs Director General Tang Su Xin. He discouraged Sinopec from agreeing to develop hydrocarbons in Iran and

reaffirmed
that the Iran Sanctions Act (ISA) requires that the U.S.
government
consider sanctions against companies that invest in Iran's
oil and gas
sector. (Note: Sinopec subsidiary SIPC committed to a
"services
contract" for the development of the Yadavaran oil field in
Iran in
December 2007. See reftels A and B. End Note.)

17. (C) Tang explained that Sinopec's Yadavaran project has
not moved
forward, due in part to Iran's displeasure with China's
support for
UNSCR 1803. (Note: In a letter to the Embassy in April,
(reftel C)
Tang stated that "since China voted in favor of UNSCR 1803,
the Iranian
side may postpone the approval of the project indefinitely."
Zhang's
deputy told the Embassy in October that there had been no
progress in
Sinopec's energy agreements with Iran (reftel D). End Note.)

China-Iran energy deals just business as usual

18. (C) Tang asserted that China maintains normal diplomatic
and business
relations with Iran. Such relations, he claimed, are
transparent and do
not affect China's position on non-proliferation or hurt U.S.
interests.
Tang stressed that Sinopec is a responsible state-owned
company that

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acts in accordance with UN resolutions on Iran and supports
the Chinese
government's opposition to Iran's development of nuclear
weapons.

"We all need to develop more energy resources"

19. (C) Tang explained that recent high oil prices led to
increasing
pressure on Sinopec to expand its access to oil overseas. He
said that
Sinopec relies heavily on imported crude (purchased at market
prices),
which accounts for 70 percent of the oil feeding its domestic
refineries.
Meanwhile, it sells finished gasoline and diesel at
government-set
prices, resulting in refining losses when international
market prices
are higher than domestic gas and diesel retail prices.
(Comment:
Sinopec reported a yoy 77 percent decline in profits in the
first half
of 2008 due to soaring oil prices and price controls on
domestic oil
products. End Comment.) Although crude prices have come down
in recent
months, easing some of the pressure on its downstream
businesses,
Sinopec plans to continue to carry out upstream investments
overseas to
secure future supplies, Tang added. Regarding Sinopec's
activities in
Iran, he added that he hoped the U.S. government would take a
more
rational approach. "We all need to develop more energy
resources," he
asserted.

Limited sanctions preferred to "tougher measures"

¶10. (C) Tang urged the U.S. to engage in direct talks with Iran. He pointed out that direct diplomacy with North Korea has been quite successful, and suggested that the U.S. might consider adopting a similar approach toward Iran. Tang emphasized that the U.S. and China share the same goals, but have different approaches toward Iran. In Tang's view, limited sanctions would have a greater impact than the "tougher measures" supported by the U.S.

PetroChina also considering project in Iran

¶11. (C) In a meeting on unrelated subjects earlier in the week, CNPC Vice-Chairman and PetroChina President Zhou Jiping told Hengel that PetroChina is also considering a project in Iran, but it has not yet made any specific plans. Zhou stated that PetroChina is fully aware of UN and U.S. sanctions on Iran.

¶12. (SBU) DAS Hengel has cleared this cable.

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